



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Ephraim Mogale Local Municipality
P. O. Box 111
Marble Hall
0450
30 November 2018

Reference: 02824REG17-18

Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Ephraim Mogale Local Municipality for the year ended 30 June 2018

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

Report of the auditor-general of Ephraim Mogale Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements Ephraim Mogale Local Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Ephraim Mogale Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with SA Standards of generally recognised accounting practice and the requirements of the the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Division Of Revenue Act, 2017 (Act No.3 of 2017) (DORA).

Basis for opinion

Context for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 47 to the financial statements, the corresponding figures for the year ended 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended 30 June 2018.

Significant uncertainties

8. With reference to note 38 to the financial statements, the municipality is the defendant in various legal claims involving individuals and companies. The municipality is opposing these claims amounting to R16 167 772 as it believes it has reasonable grounds to defend each claims. The ultimate outcome of the matters cannot presently be determined. As a result, no provision for any liability that may result has been made in the financial statements.

Material losses due to impairments

9. As disclosed in note 3 to the financial statements, material losses of R83 658 548 was incurred as a result of a write-off of a short-term investment held at VBS Mutual Bank.
10. As disclosed in note 29 to the financial statements, material losses to the amount of R20 840 867 (2017: R9 402 871) were incurred as a result of an impairment provision for trade debtors.
11. As disclosed in note 29 to the financial statements, material losses of R5 785 065 was incurred as a result of a write-off of trade debtors.

Irregular expenditure

12. As disclosed in note 44 to the financial statements, the municipality incurred irregular expenditure of R20 966 377, as it did not follow a proper tender process.

Other matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

14. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion on them.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, we do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with with SA Standards of GRAP and the requirement of the MFMA and DORA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate

governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2018:

Key performance areas	Pages in the annual performance report
Key performance area 1: Spatial rationale	x – x
Key performance area 2: Basic service delivery and infrastructure development	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

24. I did not raise any material findings on the usefulness and reliability of the reported performance information for key performance area :

- KPA 1: Spatial rationale:

25. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

Key performance are 2- Basic service delivery and infrastructure development

Various indicators

26. The reported achievement in the annual performance report did not agree to the supporting evidence provided. The supporting evidence provided indicated that the achievements of this indicator was as follows:

Indicator Description	Reported Achievement	Audited Value
Indicator: % of street light fittings maintained within 90 days, based on 1056 street lights	100%	50,57%
Indicator: % of Mast light fittings maintained within 90 days, based on 528 mast lights	100%	54,17%

Indicator: % of households with access to a minimum level of basic waste removal by 30 June 2018 (once per week) (GKPI)

27. We were unable to obtain sufficient appropriate audit evidence to support the reported achievement against the planned target of 17,4% of households with access to a minimum level of basic waste removal by 30 June 2018. This was due to inadequate formal standard operating procedures and a proper performance management system that predetermined how the achievement would be measured, monitored and reported. We were unable to confirm the indicator by alternative means. Consequently, we were unable to determine whether any adjustments were required to the achievement of 18,8% of households with access to a minimum level of basic waste removal by 30 June 2018 as reported in the annual performance report.

Indicator: Number of existing households in formal settlements provided with solid waste removal services once per week

28. We were unable to obtain sufficient appropriate audit evidence to support the reported achievement against the planned target of 5 619 existing households in formal settlements provided with solid waste removal services once per week. This was due to inadequate formal standard operating procedures and a proper performance management system that

predetermined how the achievement would be measured, monitored and reported. We were unable to confirm the indicator by alternative means. Consequently, we were unable to determine whether any adjustments were required to the achievement of 6 369 existing households in formal settlements provided with solid waste removal services once per week as reported in the annual performance report.

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) [x to x] of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual report

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure, disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Assets management

35. Funds were invested in Venda Bank Society (VBS) Mutual Bank, in contravention of municipal investment regulation 6.

Internal control deficiencies

45. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
46. The accounting officer did not always act promptly to address identified weaknesses in internal control, which resulted in non-compliance with applicable legislation.
47. Management did not sufficiently implement the daily and monthly controls designed for the municipality's business processes especially in supply chain management, revenue management, expenditure management and asset management
48. The accounting officer did not adequately review the financial statements and the annual performance report before submission for audit, resulting in material adjustments to the financial statements and annual performance report

Auditor-General

Polokwane

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance area and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Ephraim Mogale Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

.....
Senior Manager: Limpopo

Enquiries: Rabelani Muligwe
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